



Presentation to Joint Municipal Power Agency Relief Committee

January 10, 2012



Electric Rates in Eastern NC

How Did We Get Here?

- History Provides Perspective on Debt
- The Lasting Effect of the 1970s Energy Crisis

Our Situation Today

- How NCEMPA Rates Compare in NC, Nationally
- The Impact on Economic Development

Searching For Solutions

- Refunding Debt: Past Efforts, Current Opportunities
- The Challenge of Selling Energy Assets
- Other Possibilities?



A Look Back at History

The Impact of the 1970s Energy Crisis: Poor Reliability, Rising Costs Created Dire Situation

- With energy demand outpacing supply, utilities couldn't guarantee reliable long-term power supply
 - Rationing of power predicted
 - Electric costs steadily increasing
- Cities feared negative impact on economic development



A Look Back at History

The Impact of the 1970s Energy Crisis: Poor Reliability

“For the first time in modern North Carolina, you’re seeing the two largest power companies in the state not being able to say to an industrial prospect, ‘Yes, come any time you want and anywhere you want, and we’ll have power for you.’”

Sherwood Smith,
Chairman and CEO, CP&L
October 1981
Business North Carolina



A Look Back at History

The Impact of the 1970s Energy Crisis: Rising Costs

- Wholesale rates were volatile and unpredictable
- Energy rates skyrocketed across the US
- CP&L wholesale rates increased 243% from 1970-'79





A Look Back at History

CP&L, Duke Power Were Struggling Financially

“If we had not had the revenue from the fuel clause, we simply would have gone out of business in the fourth quarter of 1974.”

Shearon Harris, Chairman and CEO, CP&L

February 4, 1975

Testimony before the Committee on Public Utilities and Energy

“We were not able in 1974 to sell any bonds at any price, under any conditions whatsoever. We were desperate for cash to meet the payroll... We converted everything we could to cash. We converted uranium to cash. We sold our office buildings and leased them back.”

Bill Lee, Chairman and CEO, Duke Power Company

July 9, 1985

Testimony in Rate Hearing



The Power Agency Is Formed

Energy Crisis Brought Together Utilities and Cities

- Cities wanted greater reliability and control over costs
- Utilities needed help to finance new power plants

The Best Solution At The Time:

Cities Granted Permission to Own Generation

- Legislation passed unanimously in 1975
- Constitutional Amendment passed in 1977
- NCEMPA purchased ownership in 5 CP&L plants in 1982

Who Supported the Idea?

- Governor, Legislators, City Officials, Voters



Three Mile Island Changed Everything

March 28, 1979

The Nuclear Accident

Radiation Continues To Leak From Crippled Plant

HARRISBURG, Pa. (AP) — Radiation leaks from the Three Mile Island nuclear power plant continued today, authorities said, as a debate grew over what was described as one of this most serious such incidents in this country's history.

"The vapor that is now going into the atmosphere is from a sump pump and is only mildly radioactive within accepted limits," said Don Curry, a spokesman for the Metropolitan Edison Co., owner of the plant. The pump is designed to remove water after it has cooled the reactor.

"We concede that it's not just a little thing," Curry said. "In terms of publicity it will probably surpass the Browns Ferry incident."

Until now, a March 1975 fire in the control room of the Browns Ferry nuclear plant in Alabama has generally been considered this nation's most dangerous incident involving a nuclear reactor.

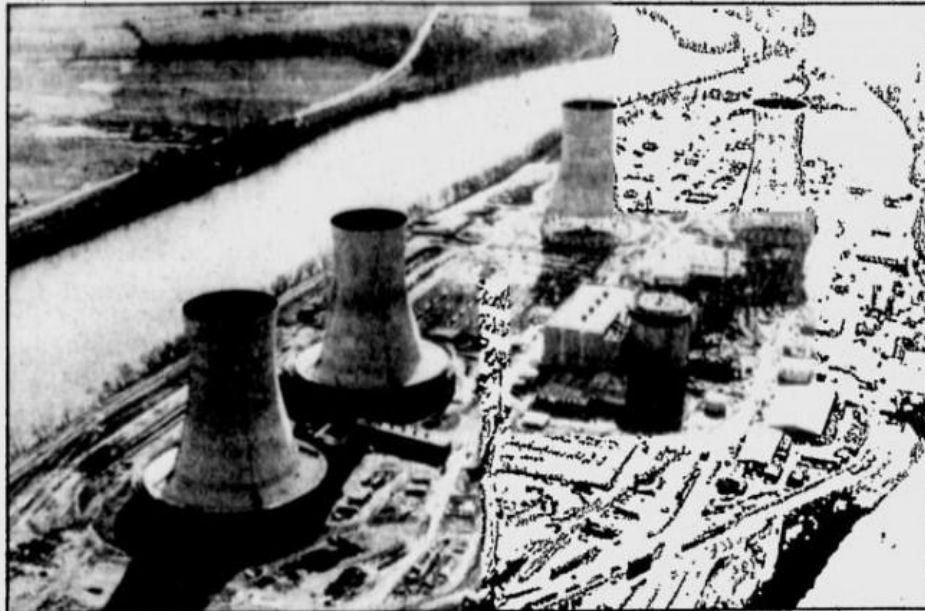
Low level radiation was detected in the air as far as 16 miles away after an apparent valve failure Wednesday morning resulted in excessive pressure being built up in the water used to cool the reactor core at Three Mile Island.

"Some of the water vapor, through the venting system, went into the atmosphere," Curry said.

Curry said the latest radiation measurements outside the plant were at two to three millirems. Individuals are exposed to up to 30-millirems in a single X-ray examination.

Walter Creitz, president of Metropolitan Edison, said on ABC-TV's *Good Morning America* show this morning that the plant shut down safely and that the level of radiation released "would not endanger or injure any people."

Creitz said his company did not know what equipment had been disabled or what precisely caused the accident.



An aerial view of the Three Mile Island nuclear power plant.

AP Photo



Three Mile Island Changed Everything

The Shearon Harris Nuclear Plant Faced:

- Increased government regulations
- Construction delays
- Significant cost overruns

Plans for three additional units at Shearon Harris were cancelled.



*\$3.6B includes construction cost, fuel, interest during construction, deferred cost and cancellation cost.
Original cost estimate: \$1.4B.*

Sources: Research Triangle Institute "Policy Options for North Carolina's Municipal Power Agencies" (March 1999) and Electricities "Report to the Study Commission on the Future of Electric Service in North Carolina" (October 1999).



Three Mile Island Changed Everything

The Impact on NCEMPA

- The cost to build the Shearon Harris plant* was more than twice as expensive as projected
- NCEMPA was left with high debt, made worse by record-high interest rates and a decline in projected load growth
- NCEMPA is legally bound to repay the bonds; no cancellation opportunities

* Cost per kilowatt



The Impact on Electric Rates Today

Current NCEMPA debt is \$2.1 billion

- Debt has declined by \$1.5 billion since 1993
- Debt payments account for 35% of wholesale rates
- Debt is scheduled to be paid off on January 1, 2026

The Responsibility of NCEMPA Member Cities

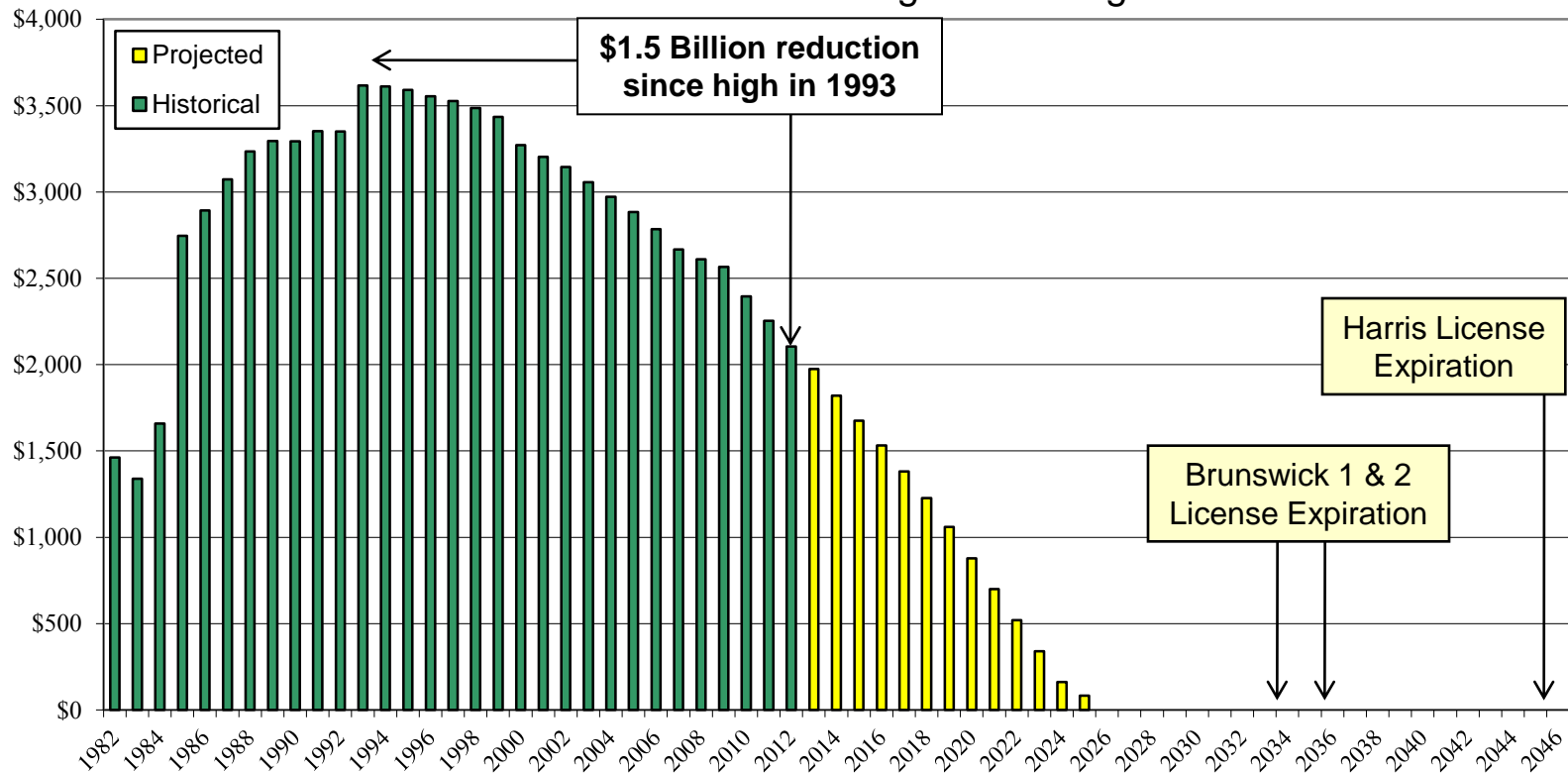
- Debt is secured by revenues received by NCEMPA from power supply agreements with member cities
- Cities receive a proportionate share of generation and are responsible for that same share of debt and operating expenses



Declining Debt

Outstanding Debt (January 2012) = \$2.1 billion

Weighted average interest cost = 5.4%





How Do NCEMPA Rates Compare?

NCEMPA customers pay about \$1/day more for electricity than Progress Energy customers

Average Monthly Residential Electric Bills

■ NCEMPA Cities	\$142 *
■ National Average	\$115 **
■ NC Average	\$101 **
■ Progress Energy	\$106 *

Based on average monthly consumption of 1,000 kWh.

*Sources: * Current Rates ** U.S. Energy Information Administration (EIA), 2010 Data*



Economic Development

Are Electric Rates Hurting Economic Development?

- Electric rates are one of many factors considered when making economic development decisions
- Several NCEMPA member cities have experienced strong economic growth during recession



Site Selection Factors: Where Energy Costs Rank

1. Highway Accessibility
2. Labor Costs
3. Tax Exemptions
4. Occupancy or Construction Costs
5. State & Local Incentives
6. Corporate Tax Rate
7. Availability of Skilled Labor
8. Inbound/Outbound Shipping Costs
9. Energy Availability and Costs
10. Availability of Buildings



Area Development Magazine: 25th Annual Corporate Survey



Economic Development Successes

- **Dopaco:** Retained 300 jobs when Dopaco chose to remain in Kinston over other sites in NC/SC (March '11)
- **West Pharmaceuticals:** \$29M investment in Kinston (March '11)
- **KCST:** Added 50 jobs in Tarboro with \$13M expansion (March '11)
- **Superior Essex:** Created 116 jobs with \$58M investment in Tarboro (May '11)
- **Ossid:** Retained 79 jobs and created 6 new jobs in Rocky Mount (April '11)
- **PGM:** Created 32 jobs in Washington with \$4M investment (Aug '11)
- **Smithfield Foods:** Added 330 jobs in Kinston with \$85 million expansion (Nov '11)



Searching for Solutions: Refunding Debt

NCEMPA has taken advantage of debt refunding opportunities with positive results:

- Avg. interest rate has declined from 12.2% to 5.4%
- Credit ratings have improved (A-, A-, Baa1)

2010 Debt Refunding

- Refinanced \$146 million at 3.01% interest rate
- Will save NCEMPA \$35 million over the next 12 years

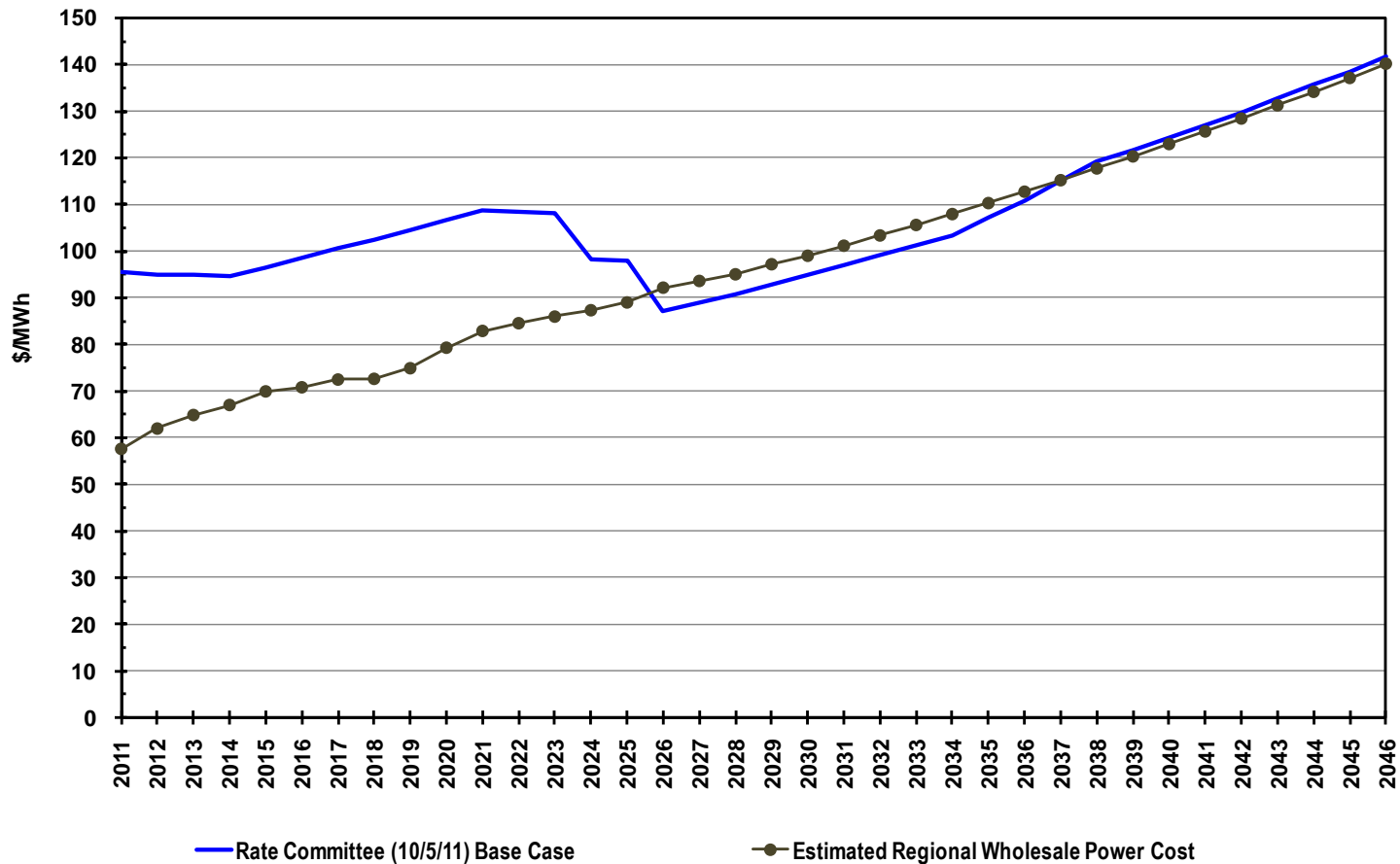


Debt Restructuring

- **NCEMPA has no plans to restructure debt and extend current debt beyond 2026.** In Nov 2011, NCEMPA Board of Commissioners voted against debt restructuring.
- **Restructuring Doesn't Solve Our Competitive Disadvantage:** Restructuring would provide short-term rate relief, but would lead to higher costs for future ratepayers.

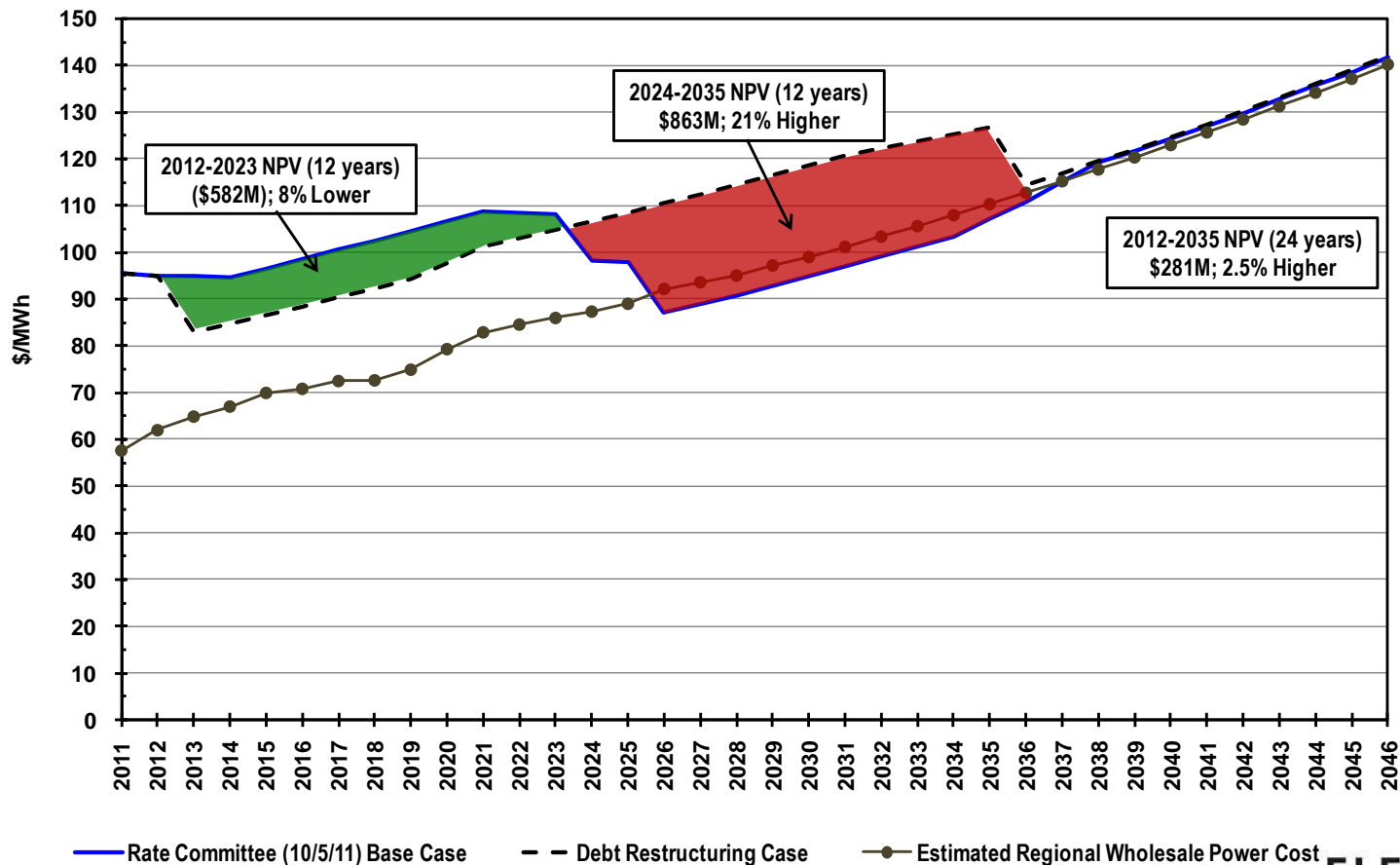


Wholesale Power Cost Estimate





Wholesale Power Cost Estimate After Debt Restructuring





Capital Addition Projects

Capital addition projects are required to address regulatory requirements and ensure reliability over the extended life of the asset.

- Capital addition projects totaling \$450 million are projected over the next 10 years
- Approximately \$225 million is projected to be debt financed to mitigate the short term impact on member cities' wholesale rates
- Planned financing of capital addition projects will not materially impact the debt amortization schedule



Selling Generation Assets

NCEMPA is open to the sale of its generation assets and carefully evaluates opportunities

- Current Outstanding Debt: \$2.1 billion
- Current Book Value: \$704 million
- Fair Market Value: ?

Key Question: Will selling the assets eliminate the debt or make electric rates competitive?



Selling Generation Assets

“We have not been able to devise an option for purchasing the Power Agency’s share of the five generating units at this time that would serve the best interests of our customers and shareholders and your members.”

Progress Energy CEO Bill Johnson
August 2010 Letter



Summary

- Forming the power agencies and purchasing ownership in the CP&L plants was the right decision at the time
- NCEMPA has taken prudent steps to reduce the debt by \$1.5 billion since 1993
- NCEMPA recently voted not to restructure current debt
- NCEMPA is open to the potential sale of its power generation assets